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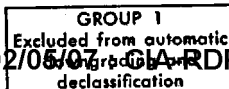
## Current Support Brief

### INCREASED POLISH CONCERN FOR TRADE WITH DEVELOPED WESTERN COUNTRIES



CENTRAL INTELLIGENCE AGENCY  
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INCREASED POLISH CONCERN FOR TRADE WITH  
DEVELOPED WESTERN COUNTRIES

Trade with developed Western countries, which was de-emphasized in the Polish Second Five Year Plan (1961-65) drawn up in 1960, recently has been a matter of increasing concern in Poland. This trade had been planned conservatively because of the uncertainty concerning Poland's demand for Western goods and its supply of Western currencies. A recent overfulfillment of domestic plans for industrial growth and fear that economic difficulties in several of the Soviet Bloc countries will cause shortfalls in deliveries of key products by the Bloc have increased Polish demand for imports from the developed West. At the same time, the development of the Common Market is likely to hamper the expansion of Polish exports to member countries and to force the Poles to make some changes in the commodity structure of these exports. Uncertainty about the effects of the Common Market and the extent of the required changes in export structure is a cause of concern to Polish planners, although the country's basic economic policies and trade orientation are not in question.

Primary emphasis in the Polish Second Five Year Plan was placed on the rapid increase of trade with the Bloc and with underdeveloped countries in the Free World. Polish trade with the developed West, by contrast, was expected to decline somewhat as a share of total trade. This shift in the direction of Polish trade during 1961-65 was closely related to planned changes in the commodity structure of exports, particularly to the greatly increased share in total exports of machinery and equipment, which, except for machine tools and a few other products, are difficult to sell in developed Western countries.

In recent months, however, the Poles have strongly emphasized their desire to trade with the developed West, particularly with Western Europe, and have indicated considerable concern for their ability to expand exports to this area. The apparent discrepancy between this concern and the objectives of the Five Year Plan can probably be explained in part by Poland's tendency to plan the level of trade with developed Western countries conservatively. Beyond a minimum amount of key imports such as chemical machinery and rolling mill equipment and some important

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items -- grain, nonferrous metals, and chemicals, -- Polish trade with the developed West is not easily planned, because it is used to fill unexpected needs as they develop and because planners have difficulty in predicting Poland's supply of Western currency, which depends upon such uncertain factors as price fluctuations for Polish exports, the course of Polish agricultural production, and the availability of credits. Because of uncertainty in both the demand for Western goods and the supply of Western currencies, the Poles probably set their plan to cover only minimum import needs, whereas in fact they expect that the planned level of trade will be surpassed.

Another probable reason for the recent Polish emphasis on trade with developed Western countries is an increase in basic import needs from these countries, particularly from Western Europe. Industrial production in Poland has been growing more rapidly than planned since the beginning of the Five Year Plan period (1961-65), making it necessary to increase imports somewhat more than planned. At the same time, economic difficulties in the Bloc are probably making it necessary for Poland, as well as other Satellite countries, to rely upon the West for deliveries of a number of items that were expected to have been furnished by the Bloc. The Bloc-wide shortage of coking coal, the underfulfillment of industrial production plans in East Germany, and possibly the difficulties in the Czechoslovak steel industry are likely to make Poland more dependent on developed Western countries for imports of both machinery and industrial materials than had been anticipated.

The prospect that scheduled Bloc deliveries to Poland will be underfulfilled make it less imperative that Poland increase its machinery exports as planned. Polish machinery exports to the Bloc fell short of plan in 1961, partly because of reduced demand by Communist China but mostly because of the failure of Polish industry to produce machinery and equipment of adequate quality and to make prompt delivery. The reforms in the organizing, financing, and pricing of export production that were announced early in 1962 are intended to improve the quality and timeliness of exports, but the Poles do not expect that the effects of these measures will be felt soon enough to prevent continued underfulfillment of machinery exports at least through 1962. This shortfall, however, should not create a serious balance of payments problem in view of the fact that some other Bloc countries probably will have even greater difficulty in meeting their commitments to Poland.

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The fact that the demand for imports from developed western countries is somewhat greater than anticipated means that Poland will have to increase more rapidly its own exports to these countries -- a difficult task in view of the unfavorable market prospects for some of Poland's traditional exports to the West and the lack of effort in the past in developing new lines of export. Although Polish exports to the developed West increased rapidly in 1961 (about 13 percent), most of the increase consisted of food products and was based on an unusually large growth of agricultural production, which is not likely soon to be repeated. Moreover, the expansion of Polish exports to Western Europe along traditional lines now faces considerable uncertainty raised by the commercial policy of the European Common Market.

In the next few years, Poland will have to cope with difficulties encountered by some of its present exports to Common Market countries, including most probably coal and processed foods. The Poles are currently engaged in market research to find substitutes for products so affected, with the idea particularly of promoting certain labor-intensive consumer goods (ceramics, glass, furniture, yachts, and confectionary products) which should enjoy a favorable competitive position because of Poland's relatively low labor costs. Poland is also looking into the possibility of diverting some exports from the Common Market area to other Western European countries. Little progress can be made, however, in the production and marketing of substitutes until the impact of Common Market tariffs has been felt and the magnitude and direction of the necessary shift in the structure of Polish exports is known. There will probably be some lag, therefore, lasting perhaps until the end of the Five Year Plan period, during which Poland may well have trouble expanding its exports to Western Europe.

Polish concern over the Common Market reflects uncertainty as to the effect of the Common Market on Polish foreign trade, an uncertainty that intensifies the difficulty of planning the necessary changes in the structure of exports to Western Europe. If the Poles are unable to increase their imports from Western Europe fairly rapidly in the next few years, growth in some branches of industry may be reduced. Poland is, however, among the least dependent of all European countries on foreign trade, and trade with Common Market countries -- including Great Britain -- is only about 15 percent of the total. Thus efforts to increase trade with these countries will not lead to any important change in Poland's 5-year investment program or in

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the major orientation of Polish foreign trade toward the Bloc. There will, nevertheless, be some alteration of foreign trade plans, including a much higher priority on the development of new lines of export and greater emphasis on the acquisition of new markets in developed Western countries.

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